First Quarter Financial Report 2017-18

For the period ended June 30, 2017

Farm Credit Canada
Advancing the business of agriculture

Canada

Farm Credit Canada

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation, reporting to Canadians and Parliament through the Minister of Agriculture and Agri-Food. We provide financing and other services to more than 100,000 primary producers, value-added operators, suppliers and processors along the agriculture value chain. Operating from 100 offices located primarily in rural communities, our more than 1,800 permanent employees are passionate about the business of agriculture.

Contact Corporate Communication at communications@fcc-fac.ca for more information.

First Quarter Financial Report 2017-18
For the period ended June 30, 2017

This report was prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and should be read in conjunction with disclosures and information contained in FCC's Annual Report and Corporate Plan Summary.[1]

Financial results

This document contains the corporation's unaudited financial results for the first quarter, which ended June 30, 2017. The corporation is on track to meet the financial performance measures for the current fiscal year as outlined in the Corporate Plan Summary for 2017-18 to 2021-22.

Net income overview
($ millions)

	Three months ended		
	June 30, 2017		June 30, 2016
Net interest income	**$ 255.9**	$	240.9
Provision for credit losses	**(8.2)**		(14.1)
Non-interest income	**4.4**		3.5
Administration expenses	**(93.6)**		(90.2)
Fair value adjustment	**(4.4)**		(1.5)
Net income	**$ 154.1**	$	138.6

Net income for the three-month period ended June 30, 2017, increased by $15.5 million over the prior year. This was mainly due to an increase in net interest income of $15.0 million and a decrease in provision for credit losses of $5.9 million. This variance was partially offset by an increase in administration expense of $3.4 million and a decrease in fair value adjustment of $2.9 million.

Net interest income for the three-month period ended June 30, 2017, increased by $15.0 million primarily due to higher portfolio volumes partially offset by lower margins. The net interest margin for the three-month period ended June 30, 2017, decreased to 3.09% from 3.18% for the comparable period in 2016-17, mainly due to fixed earning assets repricing in a lower interest rate environment.

The provision for credit losses for the three-month period ended June 30, 2017, decreased $5.9 million over the prior year. The decrease reflects continued strong portfolio health.

Administration expenses increased $3.4 million year-over-year due to an increase in salaries and benefits as well as an increase in other expenses mainly related to higher amortization and depreciation expense and travel and training expense.

The decrease in the fair value adjustment for the three-month period was primarily due to changes in fair value of financial instruments.

[1] These documents are available at www.fcc-fac.ca/en/about-fcc/governance/reports.html

Loans receivable

FCC experienced overall growth in loans receivable of $1,334 million from March 31, 2017, bringing its loan portfolio to $32,555 million at June 30, 2017. Loan portfolio growth of 4.3% for the three months ended June 30, 2017, was higher than the loan portfolio growth of 3.5% for the first three months of the prior fiscal year. This was mainly due to higher loan disbursements in the current fiscal year.

Cash flow

Cash and cash equivalents at June 30, 2017, decreased by $151.9 million from $902.7 million at June 30, 2016. For the three-month period ended June 30, 2017, cash of $1,188 million and $0.1 million was used in operating activities and investing activities respectively, while $1,209 million was provided by financing activities.

Outlook against Corporate Plan Summary

FCC is projected to meet or exceed all year-end financial targets as outlined in the Corporate Plan Summary for 2017-18 to 2021-22.

Measure	Outlook
Net income	On track with Corporate Plan
Return on equity	On track with Corporate Plan
Efficiency ratio	On track with Corporate Plan
Total capital ratio	On track with Corporate Plan

Enterprise risk management

FCC has an enterprise risk management framework to manage risks efficiently, consistently and in a co-ordinated manner. The corporation is exposed to six main categories of risk: credit, market, liquidity, operational, strategic and reputation.

The FCC Board of Directors oversees the corporation's risk governance framework, which is supported by policies and committees that guide corporate decision-making. The Risk Committee of the Board reviews risk reporting quarterly.

FCC's risk assessment process includes risk identification and assessment, measurement, control, monitoring and reporting. This is an ongoing process for credit and market risk. All risks are assessed annually during the strategic planning process and constitute the corporation's risk profile. Enterprise Management Team members are responsible for developing and implementing risk management strategies and action plans to mitigate the corporation's top risks.

Based on these processes, no new material risks were identified this quarter.

Statement of management responsibility

Management is responsible for the preparation and fair presentation of these consolidated quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, and for such internal controls as management determines is necessary to enable the preparation of consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in this quarterly report is consistent, where appropriate, with the consolidated quarterly financial statements.

Based on our knowledge, these unaudited consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the consolidated quarterly financial statements.

Michael Hoffort, P.Ag.
President and Chief Executive Officer

Rick Hoffman, CPA, CMA, MBA
Executive Vice-President and Chief Financial Officer

Regina, Canada
August 2, 2017

Condensed Consolidated Financial Statements
Consolidated Balance Sheet

(Unaudited) (thousands of Canadian dollars)		June 30, 2017		March 31, 2017
Assets				
Cash and cash equivalents	$	750,835	$	790,595
Temporary investments		474,823		435,530
Accounts receivable and prepaid expenses		36,488		399,110
Derivative financial assets		29,087		35,831
		1,291,233		1,661,066
Loans receivable – net (Notes 2 and 3)		32,349,169		31,007,050
Finance leases receivable – net		17,918		16,468
Investment in associates		50,733		50,908
Venture capital investments		58,822		55,015
Post-employment benefit assets		56,213		53,536
		32,532,855		31,182,977
Equipment and leasehold improvements		23,097		24,234
Computer software		33,288		32,966
Equipment under operating leases		99,688		90,850
Other assets		22,705		22,179
		178,778		170,229
Total assets	$	34,002,866	$	33,014,272
Liabilities				
Accounts payable and accrued liabilities	$	69,995	$	60,393
Derivative financial liabilities		1		3
		69,996		60,396
Borrowings (Note 4)				
Short-term debt		11,263,696		10,416,139
Long-term debt		16,473,108		16,508,032
		27,736,804		26,924,171
Transition loan liabilities		143,332		130,024
Post-employment benefit liabilities		142,460		138,709
Other liabilities		20,204		19,658
		305,996		288,391
Total liabilities		28,112,796		27,272,958
Equity				
Contributed surplus		547,725		547,725
Retained earnings		5,260,856		5,106,783
Accumulated other comprehensive income		80,910		86,271
Equity attributable to shareholder of parent entity		5,889,491		5,740,779
Non-controlling interest		579		535
		5,890,070		5,741,314
Total liabilities and equity	$	34,002,866	$	33,014,272

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Income

(Unaudited) (thousands of Canadian dollars)	Three months ended June 30, 2017	June 30, 2016
Interest income	$ 296,531	$ 282,050
Interest expense	40,623	41,173
Net interest income	255,908	240,877
Provision for credit losses	8,197	14,062
Net interest income after provision for credit losses	247,711	226,815
Net insurance income	4,692	4,314
Net loss from investment in associates	(116)	(1,108)
Other (expense) income	(160)	235
Net interest income and non-interest income	252,127	230,256
Administration expenses		
Salary and benefits	59,732	58,130
Other	33,889	32,026
Total administration expenses	93,621	90,156
Net income before fair value adjustment	158,506	140,100
Fair value adjustment	(4,423)	(1,461)
Net income	$ 154,083	$ 138,639
Net income attributable to:		
Shareholder of parent entity	$ 154,073	$ 138,632
Non-controlling interest	10	7

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Unaudited) (thousands of Canadian dollars)	Three months ended June 30, 2017	 June 30, 2016
Net income	**$ 154,083**	$ 138,639
Other comprehensive income		
Items that are or may be reclassified to net income		
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(5,416)**	(5,415)
Net unrealized gains on available-for-sale financial assets	**55**	887
Total other comprehensive loss	**(5,361)**	(4,528)
Total comprehensive income	**$ 148,722**	$ 134,111
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 148,712**	$ 134,104
Non-controlling interest	**10**	7

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Changes in Equity

(Unaudited) (thousands of Canadian dollars)	Balance March 31, 2017	Net income	Other comprehensive income	Contributions from non-controlling interest	Balance June 30, 2017
Contributed surplus	$ 547,725	$ -	$ -	$ -	$ 547,725
Retained earnings	5,106,783	154,073	-	-	5,260,856
Net gains on derivatives previously designated as cash flow hedges	86,458	-	(5,416)	-	81,042
Net unrealized (losses) gains on available-for-sale financial assets	(187)	-	55	-	(132)
Total accumulated other comprehensive income (loss)	86,271	-	(5,361)	-	80,910
Total equity attributable to parent	5,740,779	154,073	(5,361)	-	5,889,491
Non-controlling interest	535	10	-	34	579
Total	$ 5,741,314	$ 154,083	$ (5,361)	$ 34	$ 5,890,070

(Unaudited) (thousands of Canadian dollars)	Balance March 31 2016	Net income	Other comprehensive income	Contributions from non-controlling interest	Balance June 30, 2016
Contributed surplus	$ 547,725	$ -	$ -	$ -	$ 547,725
Retained earnings	4,698,824	138,632	-	-	4,837,456
Net gains on derivatives previously designated as cash flow hedges	108,179	-	(5,415)	-	102,764
Net unrealized (losses) gains on available-for-sale financial assets	(1,058)	-	887	-	(171)
Total accumulated other comprehensive income (loss)	107,121	-	(4,528)	-	102,593
Total equity attributable to parent	5,353,670	138,632	(4,528)	-	5,487,774
Non-controlling interest	401	7	-	151	559
Total	$ 5,354,071	$ 138,639	$ (4,528)	$ 151	$ 5,488,333

The accompanying notes are an integral part of the condensed consolidated financial statements.

Consolidated Statement of Cash Flows

(Unaudited) (thousands of Canadian dollars)	Three months ended June 30, 2017	 June 30, 2016
Operating activities		
Net income	$ 154,083	$ 138,639
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	(255,908)	(240,877)
Unwind adjustment on impaired loans	(100)	(1,239)
Provision for credit losses	8,197	14,062
Fair value adjustment	4,423	1,461
Net loss from investment in associates	116	1,108
Amortization and depreciation	5,163	4,167
Other	(7,318)	157
Net cash outflow from loans receivable	(1,367,862)	(1,027,894)
Net cash outflow from finance leases receivable	(1,342)	(247)
Net change in other operating assets and liabilities	16,290	9,337
Interest received	299,004	295,689
Interest paid	(42,557)	(40,268)
Cash used in operating activities	$ (1,187,811)	$ (845,905)
Investing activities		
Net cash (outflow) inflow from temporary investments	$ (38,998)	$ 126,306
Acquisition of venture capital investments	(4,000)	(17,000)
Proceeds on disposal and repayment of venture capital investments	500	1,000
Net cash inflow (outflow) from investment in associates	58	(6,655)
Purchase of equipment and leasehold improvements	(788)	(1,899)
Purchase of computer software	(3,560)	(1,098)
Purchase of equipment under operating leases	(20,013)	(11,829)
Proceeds on disposal of equipment under operating leases	6,162	5,343
Cash (used in) provided by investing activities	$ (60,639)	$ 94,168
Financing activities		
Long-term debt issued	$ 2,500,000	$ 2,480,000
Long-term debt repaid	(1,400,263)	(2,505,601)
Short-term debt issued	2,944,132	4,500,164
Short-term debt repaid	(2,834,646)	(3,651,427)
Cash provided by financing activities	$ 1,209,223	$ 823,136
Change in cash and cash equivalents	$ (39,227)	$ 71,399
Cash and cash equivalents, beginning of period	790,595	831,387
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	(533)	(57)
Cash and cash equivalents, end of period	$ 750,835	$ 902,729
Cash and cash equivalents consists of:		
Cash	$ 372,102	$ 35,157
Short-term investments	378,733	867,572

The accompanying notes are an integral part of the condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Significant accounting policies

Basis of presentation

The condensed consolidated interim financial statements (interim financial statements) comply with the Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada.

These interim financial statements do not include all of the information required for complete annual financial statements and should be read in conjunction with the annual audited financial statements for the year ended March 31, 2017.

Unless otherwise stated, all dollar amounts presented in the Notes to the Condensed Consolidated Financial Statements are in thousands of Canadian dollars, which is the functional currency of FCC.

Accounting policies

The accounting policies adopted in the preparation of these interim financial statements are consistent with those followed in the annual, audited financial statements for the year ended March 31, 2017.

Application of revised International Financial Reporting Standards

The International Standards Board issued amendments to IAS 7, Statement of Cash Flows, which were effective for FCC on April 1, 2017. Adoption of the amendments resulted in no changes in accounting policies. The amendments require disclosures of changes in financing liabilities, including changes from cash flows and non-cash changes. A reconciliation of liabilities arising from financing activities will be disclosed in the Notes to the Consolidated Financial Statements for the year ending March 31, 2018.

1. Significant accounting policies (continued)

Accounting standards issued but not yet effective

FCC has reviewed the new standards and amendments that have been issued, but are not yet effective and determined that the following may have an impact on FCC in the future. Management is in the process of assessing the impact of these standards and amendments on FCC's financial statements and accounting policies, and therefore the extent of the impact of the adoption of these standards and amendments is unknown. A number of other new standards, amendments and improvements that have been issued by the IASB, but are not yet effective, are not listed below as FCC determined that they will not have a significant impact on the consolidated financial statements.

Standard	Details	Date of initial application
IFRS 9 – Financial instruments	In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It is anticipated this standard will change the classification of FCC's temporary investments and cash equivalents from AFS to amortized cost and will change the measurement of FCC's venture capital investments from FVTPL to amortized cost. IFRS 9 also introduces an expected loss impairment model for all financial assets not at FVTPL and certain off-balance sheet loan commitments and guarantees. An enterprise-wide project has been established to meet the requirement to adopt IFRS 9. It is supported by a formal governance framework and a robust implementation plan. The IFRS 9 expected loss impairment model has three stages: 1. On initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established. 2. If credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12 months of expected credit losses. 3. When a financial asset is considered credit-impaired, full lifetime expected credit losses are recognized and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. As permitted, we will not re-state our prior period comparative consolidated financial statements when we adopt the requirements of the new standard. We will recognize an adjustment to our opening April 1, 2018 retained earnings to reflect the application of the new requirements at the adoption date.	April 1, 2018

1. Significant accounting policies (continued)

Standard	Details	Date of initial application
IFRS 16 – Leases	In January 2016, the IASB issued IFRS 16, which requires all leases to be reported on a lessee's balance sheet as assets and liabilities. There are also changes in accounting over the life of the lease. In particular, lessees will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. It is anticipated this standard will result in an increase in both lease assets and lease liabilities on the balance sheet as well as an accelerated pattern for expense recognition. Lessor accounting remains similar to current practice as lessors continue to classify leases as finance and operating leases.	April 1, 2019
IFRS 17 - Insurance contracts	In May 2017, the IASB issued IFRS 17, which provides a single principle-based standard to account for all types of insurance contracts. IFRS 17 provides updated information about the obligations, risks and performance of insurance contracts and increases transparency in financial information reported by insurance companies, which will give investors and analysts more confidence in understanding the insurance industry. It also introduces consistent accounting for all insurance contracts based on a current measurement model. FCC is assessing the impact of this standard and the extent of the impact of the adoption is unknown at this time.	April 1, 2021

2. Loans receivable – net

	Term to maturity				
($ thousands)	**Within 1 year**	**1 - 5 years**	**Over 5 years**	**June 30, 2017**	March 31, 2017
Floating	$ **3,670,734**	$ **13,691,424**	$ **559,250**	$ **17,921,408**	$ 17,016,240
Fixed	**3,656,512**	**9,136,960**	**1,864,065**	**14,657,537**	14,228,183
Gross loans receivable	**7,327,246**	**22,828,384**	**2,423,315**	**32,578,945**	31,244,423
Deferred loan fees				**(24,104)**	(23,758)
Loans receivable – total				**32,554,841**	31,220,665
Allowance for credit losses				**(205,672)**	(213,615)
Loans receivable – net				$ **32,349,169**	$ 31,007,050

3. Allowance for credit losses – loans receivable

($ thousands)	June 30, 2017	March 31, 2017
Individual allowance, beginning of period	$ 78,370	$ 87,686
Provision for credit losses	(3,187)	5,030
Losses covered under the Hog Industry Loan Loss Reserve Program	243	732
Unwind adjustment on impaired loans	(100)	(3,403)
Writeoffs	(16,200)	(15,096)
Recoveries	415	3,421
Individual allowance, end of period	**$ 59,541**	$ 78,370
Collective allowance, beginning of period	$ 135,245	$ 122,344
Provision for credit losses	11,380	14,239
Losses covered under the Hog Industry Loan Loss Reserve Program	(483)	(241)
Writeoffs	(160)	(1,743)
Recoveries	149	646
Collective allowance, end of period	**$ 146,131**	$ 135,245
Total allowance	**$ 205,672**	$ 213,615

4. Borrowings

Short-term debt

($ thousands)	June 30, 2017	March 31, 2017
Government of Canada debt		
Floating-rate borrowings	$ 5,956,953	$ 6,026,860
Fixed-rate borrowings	4,776,045	3,883,242
	10,732,998	9,910,102
Capital markets debt		
USD fixed-rate promissory notes (1)	530,698	506,037
Total	**$ 11,263,696**	$ 10,416,139

(1) $408.6 million USD (March 31, 2017 - $380.2 million USD)

Long-term debt

($ thousands)	June 30, 2017	March 31, 2017
Government of Canada debt		
Floating-rate borrowings	$ 12,320,826	$ 11,450,675
Fixed-rate borrowings	3,846,623	4,748,150
	16,167,449	16,198,825
Capital markets debt		
Retail and institutional fixed-rate notes	305,659	309,207
Total	**$ 16,473,108**	$ 16,508,032